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C O N F I D E N T I A L SECTION 01 OF 02 MADRID 000155

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SUBJECT: AMBASSADOR SOLOMONT'S FEBRUARY 4, 2010 MEETING
WITH SPANISH SECOND VICE PRESIDENT AND ECONOMY/FINANCE
MINISTER ELENA SALGADO

REF: MADRID 148

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Classified By: Ambassador Alan D. Solomont, for Reasons 1.4(b) and (d)

1.(SBU) Summary: In the Ambassador's February 4 courtesy call, Economy and Finance Minister and Second Vice President Elena Salgado described Spain's economic challenges and said the GOS would seek to gain public support for changes to increase flexibility. The Ambassador emphasized the importance of steps to improve the business climate, including renegotiating our double taxation treaty and the government's proposed legislative changes to fight internet piracy. Salgado thought the bill containing the internet piracy measures could be approved by the Congress before August (though an opposition party legislator we spoke to the next day was less optimistic). The Ambassador also explained how the upcoming U.S.-Spain Forum in Washington could provide an opportunity to address Salgado's aim of increasing Spain's profile in the U.S. End Summary.

Economic Difficulties

2.(C) Minister Salgado said the current &risk fuss8 in international markets (reftel) was hurting Spain a bit. She said Spain's public sector debt as a percentage of GDP was just over half that of Greece and 10 percentage points below the EU average. The government had run surpluses in the years before the start of the crisis. Nonetheless, she acknowledged the importance of the budget deficit. Unemployment payments alone made up almost 3.5% of GDP and would decline only gradually over the new few years. The GOS had used money during the boom years to build lots of infrastructure, so it could cut investment over the next few years. It would continue funding research and development, in which Spain was still below the EU average. Over the medium term, the country's production model would have to change, as construction could not employ as many people as it had when Spain was building twice as many homes as it needed. The GOS was seeking to increase tourism by attracting more tourists to non-beach areas and throughout the year. She mentioned health care (especially elder care), telecoms, the auto industry, agriculture, and biotechnology as other sectors in which Spain had opportunities.

3.(C) To address the economy's problems, the GOS would try to increase flexibility and had to convince society)-including unions, citizens, industry, and the public sector

-- to accept changes. She said it was a myth that Spain,s economy was inflexible, noting that a high percentage (Note: about a third) of the economy,s jobs were temporary. However, the rapid turnover meant that there was no incentive to train this large segment of the labor force, while the people with permanent jobs were very protected. Rather than seeking to increase the ease of firing, it would be good to increase flexibility within companies to take steps like reducing hours or salaries instead of firing workers. This had been accomplished within the auto industry, and Spain had attracted production of a new model as a result, but it was difficult to do in many cases because of industry-wide bargaining.

Strengthening Business Ties

4.(U) The Ambassador explained the priority he placed on strengthening business ties, including increasing investment in both directions, helping U.S. companies increase exports to Spain, and encouraging Spain to improve the business climate in which U.S. companies operate. He said that updating the double taxation treaty was important to companies from both countries and offered any assistance he could provide. He noted that Spanish companies had been able to invest in the U.S. successfully despite their concerns over Buy American requirements, and he described his advocacy on behalf of two U.S. companies, proposed solar thermal electricity investments in Spain. The Minister acknowledged the importance of a level playing field. She said the GOS was seeking to reduce its bureaucracy and expected to see progress in the next three months. She promised to keep the Ambassador informed.

IPR/Sustainable Economy Law

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5.(U) In response to the Ambassador's emphasis of the importance of the internet piracy measures in the government's proposed Sustainable Economy Law (LES), Minister Salgado said the thrust of the government's proposal had not been disturbed by the recent change (Note: to require judicial authorization before internet sites could be blocked; this provision was added after the originally announced proposal sparked opposition). She did not think the proposal would be changed in the Congress, and she thought the law could be approved before the August vacation. (Comment: An legislator from the main opposition Popular Party (PP) who met with visiting A/USTR Wilson the following day was less optimistic. He predicted that the internet piracy language could be acceptable to his party with some amendment, but he said the LES as a whole would face significant PP opposition, rendering it less likely that it could be approved quickly. Septel on A/USTR Wilson's meetings will provide more information on the status of the proposed legislation. End Comment.)

U.S.-Spain Forum

6.(U) Minister Salgado welcomed the Ambassador's interest in strengthening business ties and cited a need to increase knowledge of Spain in the U.S. The Ambassador noted that one opportunity to do this was the annual U.S.-Spain Forum, to be held in Washington in July. The Embassy and U.S.-Spain Council Chairman Sen. Menendez were seeking to increase the level of participation by U.S. businesses and upgrade USG participation. For Spaniards, the event would offer a platform for telling Spain,s story.

SOLOMONT